

VZCZCXRO0127  
PP RUEHMA RUEHPA  
DE RUEHOS #0233/01 1411605  
ZNR UUUUU ZZH  
P 211605Z MAY 09  
FM AMCONSUL LAGOS  
TO RUEHC/SECSTATE WASHDC PRIORITY 0780  
INFO RUEHUJA/AMEMBASSY ABUJA 0382  
RUEHZK/ECOWAS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEHRC/DEPT OF AGRICULTURE USD WASHDC

UNCLAS SECTION 01 OF 02 LAGOS 000233

SENSITIVE  
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DEPARTMENT FOR EE/TPP/ABT/ATP SPECK  
TREASURY FOR PETERS AND HALL  
DOC FOR 3317/ITA/OA/KBURRESS, 3130/USFC/OIO/ANESA/DHARRIS

E.O. 12958: N/A

TAGS: [ECON](#) [EAGR](#) [EAID](#) [ETRD](#) [NI](#)

SUBJECT: Nigeria's Second-Largest Fast Food Chain Bullish on Prospects

¶1. (SBU) Summary. Nigeria's fast food industry has witnessed tremendous growth in recent years and the management of the country's second-largest chain, Chicken Republic, expects that pace to continue despite an economic slowdown and supply chain problems. Food Concepts Managing Director Deji Akinyanju told EconOff on May 12 that Nigeria's middle class consumers have a large unmet demand for convenience food and have demonstrated little sensitivity to price increases. Consistency and quality of supply present obstacles to expansion, but Akinyanju expressed confidence that attempts to integrate the firm's supply chain would allow the fast food establishment to increase in scale. The rapid expansion of the fast food chain is indicative of Nigeria's emerging middle class and growing wave of consumerism. End Summary.

#### Nigeria's Middle Class Eager for Fast Food

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¶2. (U) Food Concepts Managing Director Deji Akinyanju told EconOff on May 12 his company anticipated continued expansion in the fast food industry and was about to embark on a rapid expansion of its flagship brand, Chicken Republic. After starting in 2001 by franchising a South African chicken fast food chain in Nigeria, Food Concepts in 2005 launched the Chicken Republic chain that currently boasts 50 branches across Nigeria, three in South Africa, and one in Ghana. Chicken Republic is now Nigeria's second largest fast food chain behind Mr. Bigg's, which has about 150 branches. Akinyanju anticipated in the next few years Chicken Republic would expand to 300 branches, with a mix of franchises and directly owned storefronts.

¶3. (U) Akinyanju assessed that Nigeria's middle class had a rapidly expanding appetite for fast food that more than justified his firm's expansion plans. Nigeria has a market for 2,000 to 3,000 fast food locations, according to Akinyanju, suggesting that the industry was now only scratching the surface of its potential. Indicating that Nigeria's fast food consumers were relatively insensitive to rising prices, he said the chain was able to pass along higher raw material prices with little lasting impact on demand. Nonetheless, to guard its market share against potential belt tightening, Food Concepts has begun to market less expensive meals, such as rice, in addition to higher cost chicken.

¶4. (U) Indicating that Chicken Republic had yet to see sales slip, Akinyanju downplayed the risk that the economic slowdown might impact his firm. He opined that food consumption would be one of the last expenses that Nigerians would cut and that, while fast food was not a necessity, the firm's successful branding initiative would continue to attract status conscious Nigerians. Moreover, Food Concepts saw opportunities in the slowdown in the form of lower property prices that would aid growth. Akinyanju did concede that

the collapse of the Nigerian stock market derailed plans for an initial public offering last year, but said a consortium of local banks had willingly stepped in with USD 50 million in financing plus USD 35 million from a private placement of equity. Of recent concern, however, have been fuel shortages across Nigeria the past month that have slowed traffic to the restaurants, according to Akinyanju.

#### Local Supplier Capacity Remains a Problem

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15. (U) Scaling the firm's supply chain to keep pace with this expansion poses Food Concepts' largest challenge, according to Akinyanju. Lamenting the dearth of commercial agriculture, Akinyanju related that the other day he had negotiated with a farmer from Jos, who was only able to deliver a small batch of vegetables in a rickety truck. Even where Nigerian farmers produced in sufficient quantities, Akinyanju noted quality control issues and that the lack of domestic processing capacity forced Food Concepts to import many inputs.

16. (U) Akinyanju said Food Concepts was partnering with chicken producers and grain farmers - feed represents 70 to 80 percent of the cost of every bird - in an attempt to integrate its supply chain and guarantee supply and quality. Food Concept has even partnered with US food conglomerate Cargill and a local NGO to draft a report for the Nigerian government on agriculture supply chain shortcomings. Akinyanju acknowledged that vertical integration directly with farmers would distract Food Concepts from its core fast food concerns, but said it was the only way for his company to remain competitive in Nigeria. Nevertheless, Akinyanju expressed

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confidence that the supply chain investment now would give the firm an advantage should the Nigerian fast food industry become saturated and price sensitively set in.

17. (SBU) Comment: The rapid expansion of Chicken Republic, with its trendy restaurants that appeal to young Nigerians with disposable income, is indicative of Nigeria's emerging middle class and growing wave of consumerism. Even adjusting for Akinyanju's optimistic outlook, Chicken Republic's success shows few signs of succumbing to an economic slowdown or food price inflation. The primary obstacles to Food Concept are essentially the same faced by all Nigerian investors: dubious value-added requirements, like micromanaging supply chain issues or generating electricity, that divert an entrepreneur's time and money from core business activities. End comment.

18. (U) This cable has been cleared by Embassy Abuja.

Blair